STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2001-118

April 24, 2001

NORTHERN UTILITIES, INC.,
Proposed Cost of Gas
Factor for the 2001
Summer Period and Annual
Environmental Recovery Cost
Adjustment

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed Cost of Gas Factor (CGF) for the 2001 summer period and an Environmental Response Cost Adjustment (ERCA) of ($0.0137) per Ccf.

II. PROCEDURAL HISTORY

On February 15, 2001, pursuant to 35-A M.R.S.A. § 4703 and Chapter 430(2) of the Commission's Rules, Northern filed its proposed CGF for the Summer 2001 gas usage period as well as its proposed change to the ERCA as allowed in Docket No. 96-678. The Commission issued a Notice of Proceeding to interveners in prior CGF cases and by publication in newspapers of general circulation in Northern's service area.

The Office of the Public Advocate (OPA) intervened. To investigate the proposed CGF changes, the Advisory Staff issued data requests to the Company on its filing. A preliminary hearing was held on March 29, 2001 at which the Advisory Staff explored the issues raised by this filing. In addition, the Hearing Examiner established a schedule for the remainder of this proceeding that included a follow-up technical conference and discussions on whether an updated filing would be warranted due to changes in gas prices. The parties waived their right to an Examiner's Report and opportunity to file exceptions prior to deliberation of this matter because they concurred with the Staff's proposed recommendation to the Commission on resolution of all issues.

On April 5, 2001, Northern notified the Commission that it would revise its CGF filing to incorporate an updated forecast of summer period commodity costs and to reflect a supplier refund that it had inadvertently omitted from the original filing. On April 13, 2001, Northern filed the update decreasing the proposed CGF rates by an average of approximately $0.0173 cents per hundred cubic feet (ccf). In addition, this filing updated the ERC adjustment to reflect its acceptance of the Advisory Staff's proposal regarding the collection of the excess credit it returned to customers in the summer 2000 period as discussed further below.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts, and any other materials provided in this proceeding.

IV. DISCUSSION

A. Overview of Proposed Rates

Northern proposes the following 2001 Summer Period CGF rates on a per hundred cubic feet (Ccf) basis as updated in its April 13, 2001 filing to become effective May 1, 2001:

Class	Rate
Residential - Heat & Non-Heat (R-2 & R-1)	$0.9896
Small Commercial - Low Winter Use (G-50)	0.9377
Small Commercial - High Winter Use (G-40)	1.0018
Medium Commercial - Low Winter Use (G-51)	0.9406
Medium Commercial - High Winter Use (G-41)	0.9936
Large Commercial/Industrial – Low Winter Use (G-52)	0.9412
Large Commercial/Industrial – High Winter Use (G-42)	0.9640

The original filing also includes a revised ERCA of ($0.0175) for the summer period to replace the ERCA rate of ($0.0137) that was in effect during the 2000/2001 Winter CGF. The proposed revision is calculated to reflect the difference between the estimated and actual ERCA recoveries made during the winter.

The issues related to these proposed rates are discussed separately below.

B. Issues

1. Btu Content of Northern's Gas Purchases

Northern notified the Hearing Examiner prior to making the current CGF filing that, in January 2001, the rate department became aware that the gas Northern was receiving from Sable Island through the Maritimes & Northeast Pipeline had a substantially higher Btu content (1.087) than the gas the company had historically received (1.012). A higher Btu content results in lower volumetric sales because it requires less gas to produce the desired heat (or energy) effect since the gas burns hotter. Northern bills on a volumetric basis; customer usage is metered by the ccf. It has experienced lower than anticipated sales, and therefore revenues, because of the increased Btu content during 2000 and the first quarter of 2001. As a consequence, Northern's summer 2000 CGF rate did not result in collection of adequate revenues to cover its costs.

In this filing, the Company has adjusted its estimate of 2001 summer sales volumes to reflect the higher Btu content using the average of last summer's monthly readings, which was 1.087. The Btu-adjusted sales estimate for the summer 2001 period should avoid a large Btu-related under-collection like the one that occurred in the summer 2000 period.

Northern explained that the Company's operations department became aware of the increased heat content in early 2000 but expected that it would be temporary. Therefore, Northern's rate department did not make any Btu adjustment in its forecasted sales in the 2000 Summer CGF filing. Since that time, it has become apparent that the increased Btu content will be ongoing, and Northern is now taking steps to reduce the effect on its revenues.[1]

Northern's proposal to adjust its ccf sales to reflect the higher Btu content using a simple average of last summer's monthly weighted average Btu content readings is reasonable because there were no major variations in the individual monthly Btu contents, and volumes are relatively stable during the off-peak period. However, in the future, Northern should calculate any adjustments using the individual monthly weighted average Btu content and monthly throughput instead of a simple 6-month average. This would produce a more accurate result, reflecting the variations in monthly usage as well as the Btu content.[2]

2. Last Summer Period Under-collection

Northern reported an under-collection from the last summer period of approximately $2,208,836 of which $491,534 was related to demand and $1,717,302 was related to commodity. Northern states that this under-collection resulted from a combination of greater-than-forecasted gas costs, due in significant part to large increases in the market price of gas supplies, and less-than-forecasted gas sales, due in part to the higher Btu content previously mentioned. Of the $2,208,836 total under-collection, Northern attributes $576,688 to the effect of selling gas with higher Btu content. Northern also

[1] In addition to the effect on CGF, or commodity gas, revenues, Northern's base, or transportation, revenues have also decreased as sales have decreased as a result of the higher Btu content of its gas supply. Northern plans to propose a conversion to therm billing to correct its current transportation rates.

[2] This adjustment is necessary so long as Northern bills on a volumetric basis.

attributes some of the decrease in sales volume to a greater-than-expected migration of large customers from sales service to transportation-only service.

Maine regulatory law allows for the recovery of prior period cost of gas under-collections, with interest, during the next corresponding seasonal period. 35-A M.R.S.A. § 4703 and Chapter 430 of the MPUC Rules. Accordingly, the Summer 2000 under-collection increases the proposed Summer 2001 period cost of gas by approximately $0.1704 cents per ccf for all customer classes.

3. Unaccounted for Gas

During the course of the current CGF review, the Advisory Staff became aware of a potential problem with the unaccounted-for gas estimate Northern used to calculate its CGF. On an ongoing basis, Northern prepares two different calculations of unaccounted-for gas – one by the rate and forecast departments based on the 12-month period ending September for CGF purposes, and one by the engineering department based on the 12-month period ending June for the Office of Pipeline Safety (OPS) reporting purposes. Through data responses, the Staff determined that these annual values are widely different, and the Company makes little attempt to ensure that they correspond.[3] Northern explained that a portion of the

difference was the result of the different reporting periods and different definitions of unaccounted-for gas. However, they agreed that the variances should not be as great as they have been. In fact, as a result of the Commission's gas safety inspector's inquiry into the markedly higher unaccounted-for gas value reported in Northern's 1999 OPS report, last summer Northern initiated a task force to look into why its unaccounted-for gas is at a level higher than the accepted industry standard.[4] This effort continues.

Northern used an estimate of 1.7% for unaccounted for gas in calculating its summer 2001 CGF by using a rolling 4-year average of the rate department figures from the years 1994-1998. After responding to further Staff inquiry, Northern indicated that using the most recent 4-year average would result in a value of 3.38%. Later it corrected the inputs of the formula and calculated revised value of 8.1%. However, Northern concluded that because the 8.1% level was based on troublesome, recent higher unaccounted-for gas values, it should not be used in the current forecast. The cost of unaccounted-for gas is subject to reconciliation in the next period. Given the number of corrections and the apparent confusion about the rate and engineering departments' reported levels of unaccounted-for gas, we have little confidence that the Company knows the correct value. However, we find that the Company's use of an unaccounted-for gas

[3] For example, the rate forecast's 4-year average of Btu-adjusted unaccounted-for gas levels for 1996-2000 is 8.1%, whereas the engineering department's is 2.86% for these years. See Responses to Advisor's 2-4 and 2-7.

[4] Northern later corrected its engineering department's reported 1999 unaccounted-for gas level of 5.2% to 3.49%, due to errors and Btu content distortion in its initial calculation.

value of 1.7% in its current CGF forecast is reasonable for this season pending further exploration of this matter.

Nevertheless, because of the benefits of setting rates that give the proper price signals to consumers, avoiding distortions in gas cost reporting and potential safety hazards, and operational inefficiency associated with high levels of unaccounted-for gas, we are concerned about the differences in the two separate unaccounted-for gas calculations, as well as the apparent increase in the percentage of unaccounted-for gas. Therefore, we will require that Northern include with each filing made pursuant to our Order dated April 3, 2001, Docket Nos. 2001-118 and 2000-680, a report summarizing the results of its review of unaccounted-for gas and its plans to address the issue.

4. ERC Adjustment Correction

In its filing, Northern requested recovery of $83,281 that it had inadvertently flowed back to its customers in the previous summer period.[5] In calculating the ERC rate in effect for the period May to October 2000, Northern used the estimated firm sales volumes. However, it returned the credit to both firm sales customers and transportation-only customers. Northern should have used estimated total sales for both the sales customers and transportation customers when it calculated the ERC rate. Northern has requested that it be allowed to recovery the excess credit of $83,281 that was erroneously credited to ratepayers in its current ERC rate.

Docket No. 96-678 addressed the recovery of costs from ratepayers related to cleaning up manufactured gas sites and the treatment of any insurance proceeds received for these costs. The ERCA rate-setting mechanism was the result of an approved settlement among the parties. The settlement specifically addressed how costs and recoveries would be allocated between ratepayers and shareholders. Consistent with Maine law, the settlement does not allow for reconciliation of under- or over- collected recoveries from one year to another but does allow Northern to adjust its ERC rate in the summer period to reflect its actual recoveries during the previous winter period. This adjustment allows Northern to come closer to collecting its full costs. However, the settlement and approving order do not address what would be allowed if errors were to occur in applying or calculating the rate, as presented here.

The Company's proposal would allow it to recover the amount from its error in its entirety, except for any carrying charges that it has incurred to date. However, the Advisory Staff was not comfortable with recommending approval of this alternative for several reasons. First, the settlement is ambiguous about the treatment of errors. One could argue that the error in calculating the rate is no different from a forecast error that would not be reconciled. If this view were taken, no recovery could be allowed, as it would

[5] In its original filing, Northern requested recovery of $115,781; however, during the discovery process it was determined that the correct amount should be $83,281.

be considered retroactive ratemaking. Alternatively, one could argue that, because the mechanism developed in the settlement is silent as to the recovery of such inadvertent errors in the ERCA calculation, they are a matter of Commission discretion. In applying its discretion, the Commission could consider the fact that the parties agreed upon a mechanism that would allow Northern an opportunity to recover its precise environment cost expenditures as they are incurred, short of reconciliation.[6]

Secondly, we are concerned that as a result of increases in the cost of the gas commodity and the increased Btu content, Northern's customers are

experiencing another very large increase in their gas rates. It is not an appropriate time to burden them with the effect of Northern's error, causing an additional increase in rates.

Lastly, we note that the excess credit was solely the result of Northern's error. In the last year, our Staff and we have had several discussions with the Company regarding our concern about recurrent problems, such as errors and missed deadlines, with its filings. After assuring us that it would address this problem, the Company submitted a filing that requires an adjustment to customers' rates due to the Company's mathematical error, continuing the former trend. This leads Staff to wonder how seriously the Company has taken the Commission's concerns and if the Company has taken steps to address its problems.

To resolve this issue, the Staff offered the Company two recovery options that would allow partial recovery of the losses due to the Company's error and presented these at a teleconference on April 10, 2001. The first proposal allows the Company to reduce any future insurance recoveries by the $83,281 but does not allow for carrying charges. If the Company does not receive any future insurance recoveries, it would not be allowed to recover the $83,281. Northern may deduct $83,281 from the ratepayers's portion of insurance recoveries after they are allocated between shareholders and ratepayers. For example, if Northern is allocated $200,000 in insurance recoveries, according to the settlement in Docket No. 96-678, the shareholders and the ratepayers each will receive 50 percent. [7] Northern would then reduce the $100,000 allocated to the

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[6] The mechanism allows Northern to include each year's environmental clean-up costs in its ERC rate, on a 5-year amortized basis so that, at the end of the 5-year recovery period for that year's costs, the expenses drop back out of rates. The parties negotiated a 50-50 sharing of any offsetting insurance recoveries and an overall cost sharing allocation, exclusive of insurance recoveries, of 75% for ratepayers and 25% for shareholders. Insurance recoveries to date have totaled approximately $2.9 million. In the period 1997 through 1999, Northern had a net ERC under-collection of $61,190. At year-end 2000, it also experienced an under-collection of which $83,281 was related to the error in calculating the summer 2000 ERC rate.

[7] Bay State Gas, Northern-Maine and Northern-New Hampshire are working together to obtain insurance recoveries. Once the recoveries are received, they are allocated among

ratepayers by $83,281 before calculating any amounts to be returned to the ratepayers through the ERCA adjustment.

The second proposal would allow Northern to recover one-half of the $83,281 through the current ERC adjustment. It would not be allowed to recover the remaining half or any carrying charges.

The OPA did not object to the proposals offered by the Company in its original filing or to the Advisory Staff's proposal.

On April 12, 2001, Northern notified the Hearing Examiner by phone that it would accept the first proposal. Northern has reflected this resolution in its updated filing made April 13, 2001 by reducing the ERCA by $83,281.

We concur with Staff that, in addition to the question of whether recovery of the amount of its error is warranted, Northern's original proposal to recover

the full amount in this period creates an added, and untimely, burden on ratepayers even though the rate impact is small. The first proposal suggested by Staff and agreed to by Northern appears to provide a balanced result, in that Northern is required to bear the costs of deferring the recovery of the environmental expenditures attributable to its error until further insurance recoveries arrive, and ratepayers avoid any direct impact of this error in this period. Northern's rates are not increased currently, and its customers will not bear the cost of any carrying charges. Northern will receive full recovery of its error but will have to wait until it recovers more monies from the insurance carriers for the environmental costs.

V. CONCLUSION

The combination of substantial increases in projected gas prices, increases in the Btu content of Northern's gas and a large under-collection in the prior summer period results in an increase in the summer 2001 CGF of $0.3735 per ccf, or approximately 41% over last summer and approximately 21% over the rates implemented during the winter 2000/2001 rate for residential customers. We deny Northern's recovery of an ERC rate calculation error in this period, but will allow Northern to collect it if sufficient future environmental remediation insurance recoveries.

These increases result largely from market forces. Our Advisory Staff has reviewed the underlying reasons for these proposed rates and recommends their approval. Thus, although the rates proposed have increased substantially, we approve the current proposed rates.

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the three based upon an allocation process. More details on this process are set forth in the Commission Order dated October 31, 2000 in Docket 1999-586.

Accordingly, we

O R D E R

1. That Northern Utilities, Inc.'s proposed revised CGF rates are approved for effect for gas consumed on or after May 1, 2001;

2. That Northern Utilities, Inc.'s Thirty-sixth Revised Sheet No. 20.1 constituting its Cost of Gas Factor for the period May 1, 2001 through October 31, 2001, is approved;

3. That Northern Utilities, Inc.'s Ninth Revised Sheet No. 34.3, the Environmental Response Cost Adjustment rate schedule is approved and will become effective May 1, 2001;

4. That Northern Utilities, Inc.'s shall include reports summarizing its review of unaccounted for gas in its scheduled demand forecast reports to be filed with future CGF filings, as discussed herein.

Dated at Augusta, Maine, this 24th day of April, 2001.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR:

Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.